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ARTICLE

What does it take to turn around the "world's worst airline?" A lot of common sense—and very little time.

Right Away and All at Once: *How We Saved Continental*

by Greg Brenneman

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THE IDEA IN BRIEF

When Greg Brenneman joined Continental Airlines, the company was plunging toward its third bankruptcy in a decade. Little wonder it had churned through 10 presidents in as many years. "I had never seen a company as dysfunctional," writes the air carrier's president. Brenneman and CEO Gordon Bethune produced one of the fastest and most unlikely corporate turnarounds ever.

How? Above all else, Brenneman explains in this HBR interview, it was common sense and simple logic. They created a model that works when you have little time and less money—as well as when you have more of both. Their strategy focused on understanding markets, improving products, increasing revenues, and infusing employees with the energy and power to transform Continental's corporate culture.

THE IDEA AT WORK

Brenneman attributes Continental's turnaround to five operating principles, which incorporate the key components of any successful strategy—markets, products, finances, and people. "None will knock your socks off," he acknowledges, but all are well worth considering for any company.

1. **File your flight plan and track your progress.** Strategic clarity is particularly important when time and financial resources are limited. Continental's was "pure common sense. [They] needed to stop flying 120-seat planes with 30 passengers . . . get people to their destinations on time and with their bags . . . and start serving food when people were hungry." The plan got every employee heading in the same direction.

   The plan also included key performance measures to track internally as well as against competitors (for example, monthly on-time performance, mishandled bags, customer complaints).

2. **Clean house.** Brenneman replaced 50 of his 61 top officers with 20 new individuals. But he didn't stop there; he cleaned house from the top floor to the baggage handlers, keeping or recruiting only individuals who were smart, driven to get things done, and team players.

3. **Think "money in," not "money out."** As Brenneman wryly states, "I knew the fastest way to make money was to stop doing things that lost it," such as flying empty planes. But he also knew that when you focus only on cost reductions, you risk sabotaging the very products you're trying to sell.

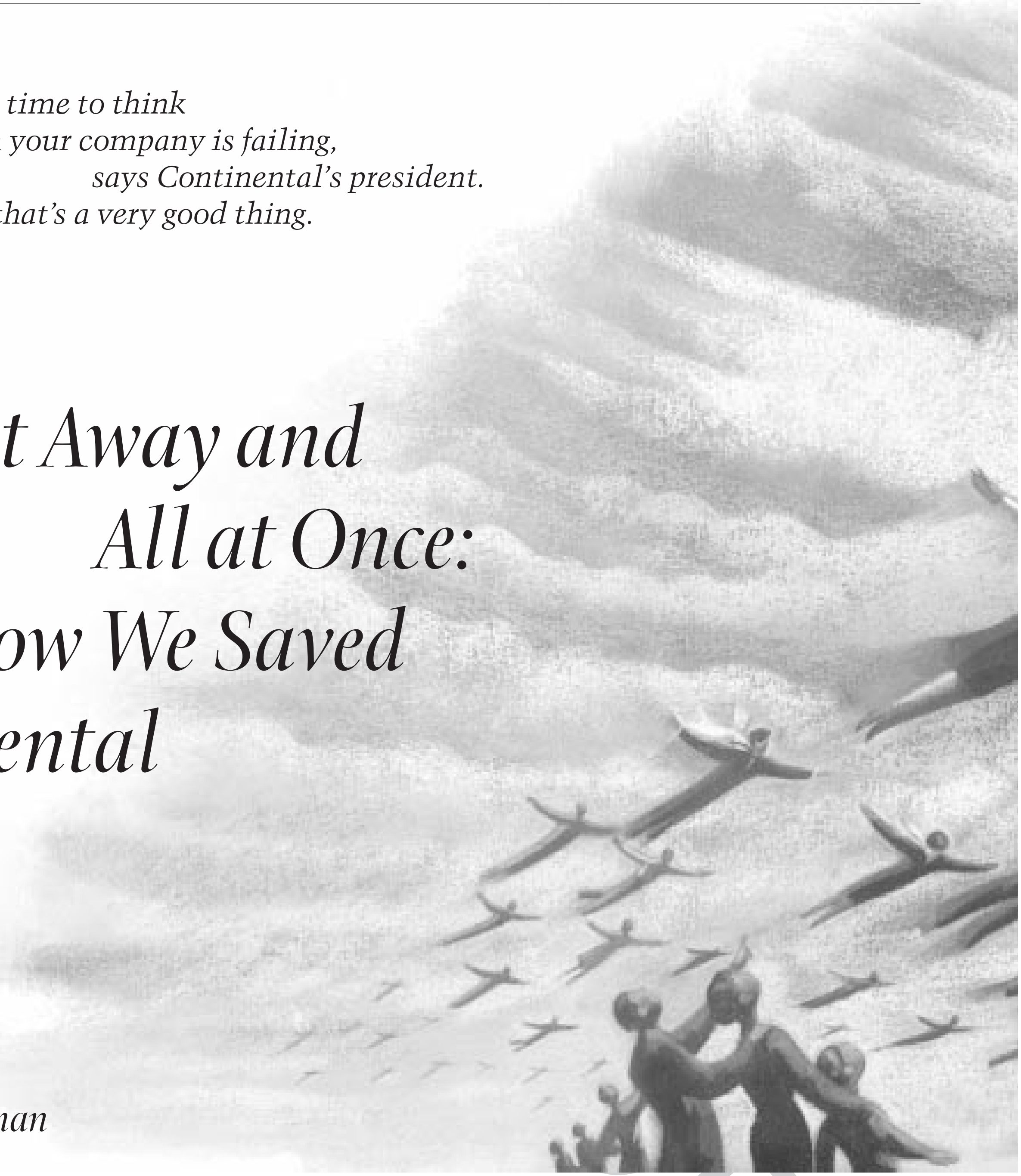
   The first step in refocusing on "money in" is to apologize for your bad service. Once you've rebuilt strong customer relationships, you can proceed to the next step: making better products they'll pay for.

4. **Ask the customer the right question.** To figure out which products to make, you first have to ask your best customers what they will pay extra for (for example, safe and comfortable airplanes, good food at mealtimes).

5. **Let the inmates run the asylum.** "We decided that at the new Continental, the employees were going to be liberated to do right by the customer and to have fun at work." Actively involving employees in the turnaround is essential. Continental's weekly voice-mails, monthly open houses, quarterly magazines, and semiannual videos shown at regional meetings all focused on talking with and listening to employees.

Of all the contributors to Continental's success, Brenneman says, "the biggest factor in our favor was momentum. . . . We lit a fire of urgency. . . . Pretty soon, we were unstoppable."

There's not much time to think when your company is failing, says Continental's president. And that's a very good thing.



Right Away and All at Once: How We Saved Continental

by Greg Brenneman

I WILL NEVER FORGET my first flight from Dallas to Houston on Continental Airlines. It was a hot, humid day in May 1993. At the time, I was a partner specializing in corporate turnarounds in Bain & Company's Dallas office. My goal that day was to sell Bain's consulting services to Continental's CEO and new owner, a leveraged buyout firm that had just rescued the airline from its second bankruptcy in nine years.

Although I was a frequent flier with literally millions of miles racked up on other airlines, I had always avoided Continental because of its reputation for lousy service. In fact, back in 1990, when we were deciding where to locate Bain's Texas office, we specifically chose Dallas instead of Houston so we could use American rather than Continental for our constant business travel.

Continental lived up – or perhaps I should say down – to my expectations that day in May. Because I was not a frequent flier on Continental, I was seated in the last row of an unattractive and dirty DC-9. The

Greg Brenneman *is president and chief operating officer of Continental Airlines in Houston, Texas.*

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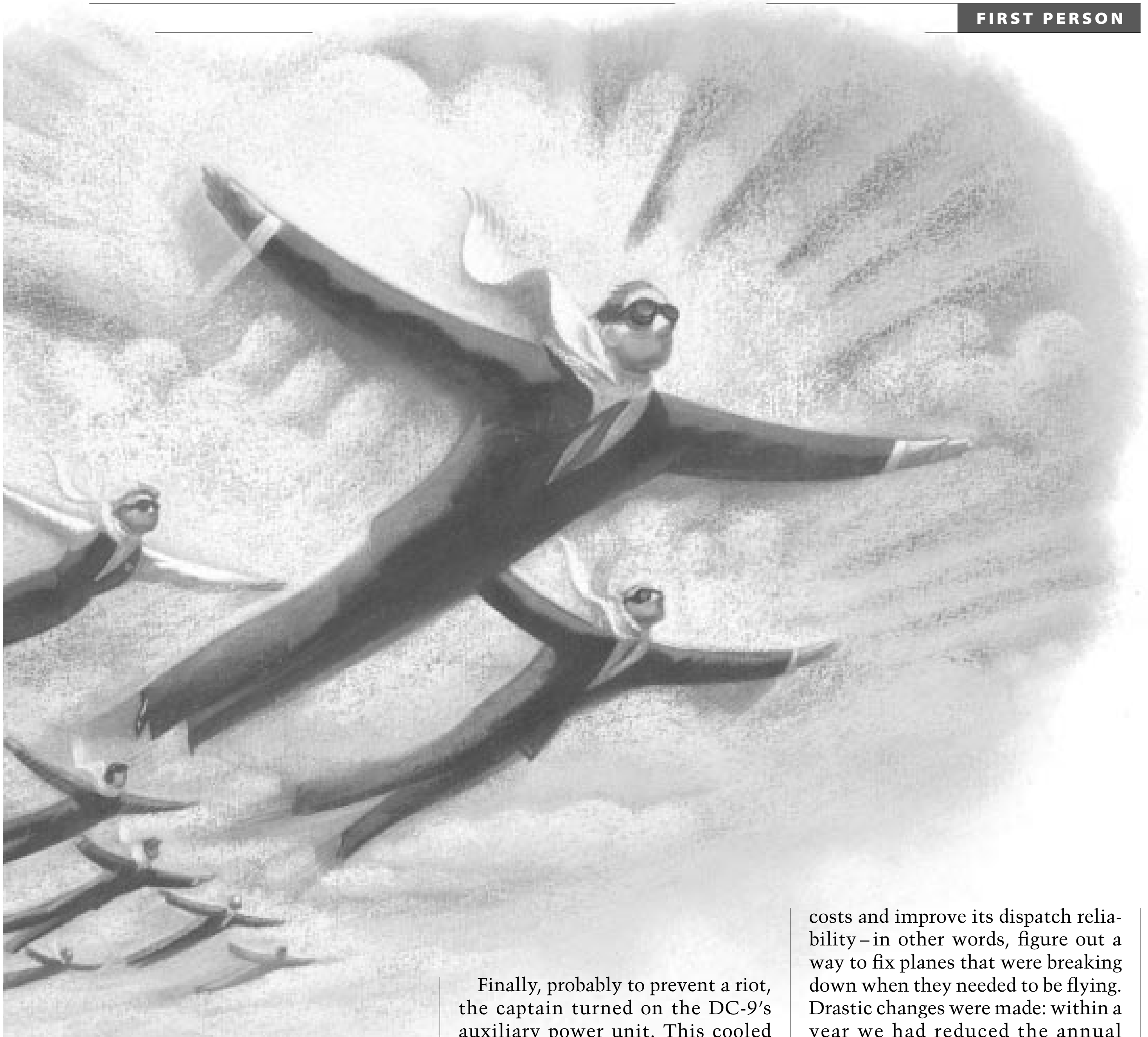


airplane's interior had seven different color schemes, which I later found out was not uncommon. After all, Continental was the product of mergers among seven airlines; when a seat needed to be replaced, the company used whatever was in stock. Worse, no one had hooked up the plane's air-conditioning. Departure time came and went, and people continued to trickle on board for another 40 minutes. I found this remarkable given that the flight time was only 36 minutes. There were no announcements about our delay, and none of the crew seemed particularly concerned.

Finally, probably to prevent a riot, the captain turned on the DC-9's auxiliary power unit. This cooled down the airplane all right, but it also caused condensation to build up on the inside roof of the aircraft. When we took off at last – 50 minutes late – the accumulated condensation flowed like a waterfall along the top of the baggage bins to the back of the airplane. It came pouring out above the center seat in the last row of coach – directly onto my head. My best suit and I were soaked.

To make a long story short – and it was a long day – Bain got the job. I wasn't sure if I should celebrate or commiserate with my colleagues. My first assignment was to help Continental lower its maintenance costs and improve its dispatch reliability – in other words, figure out a way to fix planes that were breaking down when they needed to be flying. Drastic changes were made: within a year we had reduced the annual maintenance budget from $777 million to $495 million, and the airline jumped from worst to first in the industry in dispatch reliability. But the company was still sinking fast. By the fall of 1994, Continental had blown much of the $766 million in cash that it had when it emerged from bankruptcy in April 1993.

In my six-odd years of working on turnarounds at Bain, I had never seen a company as dysfunctional as Continental. There was next to no strategy in place. Managers were paralyzed by anxiety. The company had gone through ten presidents in ten years, so standard operating procedure was to do nothing while awaiting new management. The product, in a word, was terrible. And the company's results showed it. Continental ranked tenth out of the ten largest U.S. airlines in all key customer-service areas as measured by the Department of Transportation: on-time arrivals, baggage handling, customer complaints, and involuntary denied boardings. And the company hadn't posted a profit outside of bankruptcy since 1978.

But even with all these obstacles, Continental pulled out of its nosedive, just before it hit the ground, and it soared. (For more on Continental's performance, see the exhibit "Climbing Again.") How did the reversal of fortunes happen? Looking back, I can see we were guided by five operating principles. Probably none of them will knock your socks off. In fact, sometimes when I talk to people about the lessons the turnaround taught us, they say, "Well, Greg, those seem simple enough. Maybe things were a bit dicey while it was happening, but it sure doesn't sound like brain surgery."

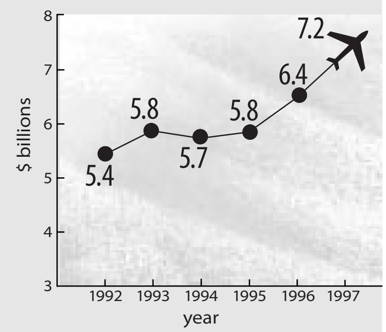
And they are right: saving Continental wasn't brain surgery. The actions required to revive a moribund company usually aren't. In Continental's case, we simply needed to fly to places people wanted to go, when they wanted to go, in clean, attractive airplanes; get them there on time with their bags; and serve food at mealtimes. The tough part – like in most turnarounds – was getting all that done fast, right away, and all at once.

The fact is, you can't afford to think too much during a turnaround. Time is tight; money is tighter. If you sit around devising elegant and complex strategies and then try to execute them through a series of flawless decisions, you're doomed. We saved Continental because we acted and we never looked back. We didn't say to the patient – if you can call a dying company that – "Now, just hold on a while so we can run a lot of tests and then perhaps perform an extremely delicate 12-hour procedure." No, we just took out the scalpel and went to work. We gave the patient little or no anesthesia, and it hurt like hell. Then again, the patient is cured now, right?

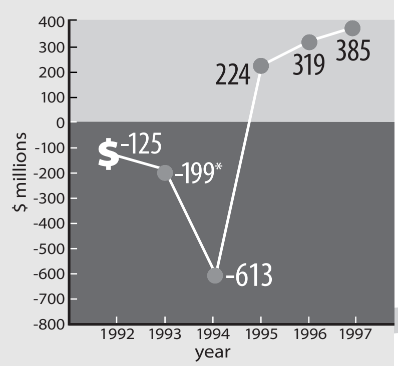
Climbing Again

Continental Airlines has undergone a dramatic and profitable turnaround in the past several years.

Revenue



Net income



* This figure excludes bankruptcy-related items.

One last thing before we get to the lessons. You will see the word *we* a lot as you read this article. In the broadest sense, *we* refers to my 40,000 coworkers at Continental. The airline could not have been saved if everyone in the company, and I mean everyone, had not pulled together. But in a narrower sense, *we* refers to myself and Gordon Bethune, Continental's chairman and CEO.

Gordon and I met in February 1994. I was still with Bain, in the midst of my first assignment for Continental. Gordon had just left a cushy job, or at least one where he could sleep soundly at night, at the Boeing Company to become president and COO of Continental. In me, Gordon found a frustrated consultant who bristled at the slow pace of change in most companies. In Gordon, I found an extraordinary leader who knew the airline business inside and out, and who managed the men and women of Continental with great heart. We hit it off from the start.

That was a good thing, because we were in a big mess together – bigger than either of us knew at first. Sure, we were able to fix some problems, such as an incredibly slow reservations system and a substandard customer-response policy. But those fixes were like trying to bail out the *Titanic* with a coffee can. Continental was losing an incredible amount of money and, more important, burning through cash at an astonishing rate. We were on our way to a third bankruptcy.

In October 1994, Continental's CEO resigned. That left Gordon nominally in charge, and he asked me to help. He moved into the CEO's office, and I moved into his old office. We had a week to put together a turnaround plan for Continental and develop a pitch to the board to name Gordon the CEO.

Throughout that week, Gordon and I held several dinner meetings – dubbed our "Last Suppers" – at his house. We knew a major ending was on the horizon – either the old Continental was going to be entirely reinvented or it was going to go bankrupt for an unprecedented third time and would probably be liquidated. Over several bottles of wine, we wrote down everything that was wrong with Continental. It was a very long list. We organized our solutions to those problems into a strategy that we called the *Go Forward Plan*. We named it that because we knew our history was not going to help us. Did you know that there are no rearview mirrors on an airplane? The runway behind is irrelevant.

Our Go Forward Plan had four cornerstones. *Fly to Win* was the market plan: we were going to build up our Houston, Newark, and Cleveland hubs, for instance, and expand our customer mix from backpacks and flip-flops to suits and briefcases.

Fund the Future was the financial plan: we were going to gain liquidity by restructuring our balance sheet and selling off nonstrategic assets. *Make Reliability a Reality* was the product plan: we were going to transform the customer's experience with us. And finally, *Working Together* was the people plan: we were going to change Continental's culture to one of fun and action and restore employees' trust. It was my opinion then, and remains today, that every company should have a strategy that covers these four elements – market, financial, product, and people – whether it is in a severe crisis or not.

Gordon and I weren't totally convinced that Continental could be saved, even with our plan. But we had to try – 40,000 jobs were at stake. It was scary. And for me, it was a defining moment. I was thinking, "Greg, this is one of those times in life when you step up to the plate or you chicken out." I had spent the last six years making recommendations that my clients sometimes took and sometimes ignored. I wanted to make things happen. It was going to take hard work, but that didn't worry me. I'm from a little farming town in Kansas where hard work is a way of life. I held a paying job when I was in third grade, and no one even blinked. In the summer of my junior year in high school, I mowed lawns from 6:30 A.M. until noon, delivered office furniture from noon until 6:00 P.M., and then baled and stacked hay until midnight. Frankly, I'd rather be working than not any day of the week.

Most important, even with all the work ahead, turning Continental around seemed like it was going to be fun. Grueling – without a doubt. Painful – certainly. Embarrassing – maybe, if we failed. But fun – yes. It's thrilling to lead people to do something no one thinks can be done. In fact, when we went before the board, we told them Continental could earn about $40 million in 1995. I know most of them thought we were on drugs. But who else was there volunteering to save Continental? The board approved the plan, and we were on our way.

Believe it or not, at this point I still wasn't on Continental's payroll. But both David Bonderman of Air Partners (the LBO firm that owned the airline) and Gordon were pushing me to join. They kept telling me I could be the only 33-year-old to run a $6 billion company. I kept telling them it was the world's worst $6 billion company. In spite of my reservations, I signed on. I truly believed the men and women of Continental could make the airline great again. We just had to get in there and do it.

Pulling out of a Nosedive: Five Turnaround Lessons

File your flight plan and track your progress. Strategic direction is never more crucial than during a crisis. Leaders must find the most leveraged plan of action, stick with it, and continually monitor the company's performance against it.

Clean house. The same team that leads a company into a crisis is rarely able to get it back on track. The hard news about a turnaround is that you have no choice but to sweep out the old to make way for the new.

Think "money in," not "money out." Companies that are headed for disaster try to cut costs, but that can sabotage the product, which lowers revenues more. Break the *doom loop* by apologizing for your mistakes and focus on delivering a better product.

Ask the customer in seat 9C the right question. There is a huge gap between what customers want and what they are willing to pay for. Make sure you know the difference.

Let the inmates run the asylum. Strong leadership, firm parameters, and clear direction are necessary in a turnaround situation, but the workplace needn't be repressive. In fact, if employees aren't having fun at work – that is, if they aren't engaged in the process and treated with respect – your turnaround will not succeed.

File Your Flight Plan and Track Your Progress

The foundation of any successfully run business is a strategy everyone understands coupled with a few key measures that are routinely tracked. Now, strategic direction is always important, but I would make the case that it is particularly important during a turnaround. In crisis situations, managers usually have limited time and financial resources. If you have very little money to spend and you have to spend it very quickly, you had better have a clear idea of the most leveraged plan of action. Moreover, pressure and fear often make managers do erratic, inconsistent, even irrational things. Companies may veer from one "strategy" to another just to make payroll or keep a client. Continental was a case in point. When we took over, you probably couldn't find a single employee, even among senior management, who could tell you the company's strategy. There had been so many over the past decade that they'd stopped keeping track.

Oh sure, people paid lip service to strategy. Here's a classic example. When I first arrived at Continental as a consultant, 18% of the flights were cash negative. I knew the fastest way to make money was to stop doing things that lose it. I sat the scheduling team down and started asking questions. "Why are we going from Greensboro to Greenville six times a day when both customers who want to fly that route are on the first flight?"

"It's strategic," someone told me.

"When did it last make money?"

"It never did," was the reply.

"How strategic can that be?"

There was silence. I asked, "Does someone's boyfriend or girlfriend

Continental's New Flight Plan

With little time and even less money to save the airline in 1994, Continental's leaders devised the *Go Forward Plan,* a four-part strategy focused on the fundamentals.

Fly to Win was the airline's marketplace plan; *Fund the Future* was the financial plan; *Make Reliability a Reality* was the formula to improve the product; and *Working Together* was the blueprint for improving the company's culture.

There was nothing complex about the Go Forward Plan: it was just a matter of logic and common sense. It remains the backbone of the company's strategy today.

Fly to Win	Fund the Future	Make Reliability a Reality	Working Together
Focus on core assets: Stop scheduling flights that lose money. Take out cost as we take out capacity. Eliminate CALite. Build up Houston, Newark, and Cleveland hubs. **Expand customer mix from backpacks and flip-flops to suits and briefcases.** **Revise marketing policies to enhance relationships with travel agents, corporations, and frequent fliers.**	**Track cash.** **Restructure the balance sheet.** **Restructure the fleet:** Reduce the number of fleet types from 13 to 4. Match airplane size with market size. Eliminate above-market leases on airplanes. **Sell nonstrategic assets.**	**Perform in the top 50% of the industry on key DOT metrics:** On-time performance Baggage mishandles Customer complaints Involuntary denied boardings **Improve image of fleet:** Paint interiors and exteriors. Add phones. Offer first-class seats. **Improve aircraft cleanliness.** **Improve food service.**	**Restore employee confidence in management:** Offer on-time incentives. Establish a consistent and reliable flight schedule. Improve communication. Deliver a profit and introduce profit sharing. **Maintain peace among the work groups.** **Establish a results-oriented culture:** Let people do their jobs without interference. Treat one another with dignity and respect.
Goal *Increase revenues and deliver a profit.*	**Goal** *Secure liquidity.*	**Goal** *Improve the product to become an airline of preference.*	**Goal** *Build a new corporate culture.*

live there? Why don't we just charter you a Lear jet? It would be cheaper." That route, along with other cash-draining flights, was soon eliminated, and 7,000 employees were let go.

To put an end to Continental's strategic wandering, Gordon and I introduced the Go Forward Plan to our coworkers. It was our story and we were sticking to it (to borrow a line from a country-and-western song). The Go Forward Plan wasn't complex. It was pure common sense. We needed to stop flying 120-seat planes with only 30 passengers on them. We needed to get people to their destinations on time with their bags. We needed to start serving food when people were hungry. We needed to create an atmosphere where people liked coming to work. (For details of the strategy, see the exhibit "Continental's New Flight Plan.")

To implement the plan immediately and in its entirety, we sold it to our coworkers with energetic zeal. We knew that the two of us could not save Continental on our own. But if we could get every employee headed in the same direction, we had a chance. At the same time, we chose 15 or so key performance measures to track relentlessly and to compare against our competitors. We didn't pick randomly; we chose measures that could be verified by the Department of Transportation. Moreover, the measures had to be aligned with the Go Forward Plan. To monitor our performance in the marketplace, we decided to track our monthly load factor, revenue per available seat mile, and quarterly cost and profit margins. To monitor our product, we decided to track our monthly on-time performance, mishandled bags, customer complaints, and the rate of involuntary denied boardings. And to monitor the progress of our people plan, we decided to track turnover, sick leave, attrition, and on-the-job injuries.

Finally, and perhaps most important, to monitor our financial progress, we announced we were going to track cash. Let me tell you why. On Thanksgiving Day in 1994, I discovered that we were going to run out of cash on January 17, 1995 – payday – and no one even knew it. I mean, no one had a clue. As you all know, cash is the lifeblood of any business. Without it, all your great plans to have a product you are proud of and people who like coming to work every day are meaningless. The buzzer will go off before you attempt the last shot, and you will lose.

You may be wondering why Continental's cash situation came as such a surprise. The reason tells you a lot about how people act when their companies are in a self-destructive mode. Some of the finance people had regularly been inflating our profit projections by plugging in overoptimistic revenue estimates. They felt pressured to do so, they said. In our business, revenue comes from credit card receipts. Naturally, our cash-flow forecasts always came in lower than projected because revenue (and thus, credit card receipts) was overstated. To this day, I can't understand why anyone would try to hide an impending cash shortage. Sure, it's bound to make the shareholders very unhappy, but hiding the fact that you are about to run out of money is like resetting the fuel gauge when you're low on gas. Will things suddenly look okay in the cockpit? Yes. Will you land short of your destination? You bet.

When I discovered Continental's real cash situation, I called Gordon. "I have some bad news for you," I told him. "Unless we restructure our obligations, we will not be able to make payroll in mid-January." While both our hearts were beating a million times an hour, we had a remarkably calm conversation. We could either declare bankruptcy or we could try to convince our creditors that the Go Forward Plan was going to work and then craft a very quiet restructuring. It had to be quiet because if the press caught on, the headlines would send more customers running, taking our revenues with them.

A couple of days later, I found myself in a room with our largest creditors. They represented approximately $3.5 billion of our $5 billion in debt and capitalized aircraft leases. I took them through the current situation, what we were doing to fix it, and the help we needed from them. They began ranting and raving. After a while, when it became apparent we were going nowhere, I got up to leave the room.

"Where are you going?" they shouted.

"I'm going home to watch TV," I answered.

"How can you drop all this on us and then leave?" they demanded.

"Do you know what the first step in problem solving is?" I asked. After a moment of dead silence, I continued, "The first step in problem solving is asking, Who has got the problem? As near as I can tell, if you take the share price times the number of shares outstanding, this entire company is worth $175 million and you are in hock for $3.5 billion. You run the company." Then I walked out.

I'll never know what possessed me to say that. Maybe it was the 20-hour days I was working. Maybe it was the fact that I had seen a client of mine do largely the same thing during a real estate restructuring, to great effect. Maybe I was just fed up with the fact that everyone seemed to have a problem but no one had any solutions. But a few minutes later, the creditors came to my office and asked me to come back in. Things were much calmer. With the help of some talented financial experts, within a few weeks we had worked out a plan to restructure our debt. We made payroll on January 17 with the help of a $29 million wire transfer Gordon arranged from Boeing.

After that crisis was over, we knew we would never lose track of our cash again. It's all part of knowing our flight plan and monitoring our progress every mile of the way.

Clean House

I have never seen the team that managed a company into a crisis get it back on track. Oh, I'm sure it has happened some time in the history of business, but I can't believe it has happened very often. Instead, managers who have gotten a company into a mess are usually mired in a puddle of overbrained solutions. They can't see any way out either. In fact, they have many ways of saying, "If the solution were simple, we would have already thought of it." On top of that, they usually have trouble accepting responsibility for and reversing the poor decisions they made in the past. It's an ego thing. And there's one more problem with existing management teams sticking around for a turnaround. No one in the company trusts them anymore. They got us into this hole, the thinking goes, how are they going to have the sense to get us out of it?

Those are the main reasons we decided to clean house when we took over at Continental. But there were others. People want to be led, not managed, in a time of crisis. Members of Continental's existing management team were not up to this challenge. They were too busy trying to knock each other off. In fact, for 15 years, the way to get ahead at Continental was to torpedo someone and then take his or her job.

Gordon and I were determined to present a united front. No one was going to come between us; if they tried, they were out. I will always remember my first meeting with all the officers at Continental. Gordon started the meeting by saying, "Greg is going to take you through our plan to get this company back on track. I want you to listen to what he has to say, and when he tells you to do something, you assume it is coming from me, and do it."

In the span of a couple of months, we replaced 50 of our 61 officers with about 20 individuals. We were cutting bureaucracy and costs but also putting important stuff – like the right culture – back in. All new hires had to have three qualities. First, they had to pass what we called the "raw IQ test" – there is no substitute for smarts. Second, they had to be driven to get things done. Finally, they had to be team players, willing to treat everyone with dignity and respect in an extremely collaborative environment.

Speaking of dignity and respect, cleaning house needn't be a brutal or humiliating experience. Every turnaround involves creating a new culture. If you fire people inhumanely, you'll be left with a bunch of employees who don't trust the company or their coworkers. We needed to create a culture at Continental where people liked coming to work. We couldn't afford to have people hoarding ideas or sapping enthusiasm as we built our new organization. So when we let people go, we went out of our way to be fair by honoring their contracts and letting them resign with dignity.

I have never seen the team that managed a company into a crisis be able to get it back on track.

We are often asked how we got such great people in the span of only a couple of months, especially at a company that appeared to be going down the tubes. The answer is, we started by hiring people we knew, many of whom were our friends. That expedited the process of screening candidates and greatly reduced our hiring mistakes. Some of these managers had spent their careers in the airline business and some hadn't worked a day at an airline. One of our techniques was to find people who were in a number two position in their current job and ask them to join Continental in the number one spot. For instance, we'd ask the number two person in pricing at another airline to come run our pricing department. We promised them full control of their domains.

And we sold Continental as if it were already a winner. At the time, our stock was trading at about $7, but I told people we wanted to hire that we were going to drive it up to $80 or higher. We offered them options along the way, so if the shareholders won, they would win. Most of them thought I was nuts, but as one of them later told me, "I figured if you were even half right, I was still going to be worth a lot of money." (And, in fact, the turnaround created many millionaires.)

It's important to point out that we didn't just clean house on the top floor of Continental. We went through the entire organization – from the highest supervisors to the baggage handlers. Many companies in crisis mode will change the CEO or president and leave it at that. In my opinion, that approach is like changing only the lead husky on a sled-dog team. Four dogs back, the look and smell stays the same. When you want real change, you can't do it partway. You have to do it fast, right away, and all at once.

Think "Money in," Not "Money out"

Every turnaround involves cost reduction, and Continental was no exception. Most companies that are in trouble, however, tend to develop a myopic focus on cost. They forget to ask simple questions like, Do we have a product people want to buy? Will our distributors sell our product? and, Are we taking care of our best customers? In short, they forget to think about money in, or good old revenues.

Of course, when you are bleeding cash, it's hard to think about anything but tourniquets. But Continental had been cutting costs in ways that sabotaged its product. For instance, in the early 1990s, pilots earned bonuses if the fuel burn rate on their airplanes fell below a specified amount. The program did decrease fuel costs, but it motivated many pilots to skimp on air-conditioning. (Indeed, the program may have been the reason behind my first "refreshing" experience with Continental.) It also motivated them to fly more slowly. That made our customers late and angry and ruined the lives of our employees who had to work overtime because of tardy arrivals. It also forced the airline to pay more to accommodate customers who had to take other airlines because of missed connections.

> **When you are bleeding cash, it's hard to think of anything but tourniquets. But Continental had been cutting costs in ways that sabotaged its product.**

Perhaps the ultimate manifestation of Continental's low-cost approach was CALite, the company's doomed low-cost airline-within-an-airline. For CALite, Continental removed all first-class seats in some airplanes. That lowered the cost per seat mile by adding more seats, but it alienated Continental's best business customers and often resulted in an all-coach airplane on long flights when airplanes were swapped during adverse weather conditions. CALite eliminated all food on its flights, and it also eliminated travel agent commissions and corporate discounts, which infuriated some very important customers.

All told, after 15 years of a low-cost approach, Continental had created what I call a *doom loop*. By focusing only on costs, the airline had created a product no one wanted to buy. Many customers, particularly business customers with a choice, selected other airlines, reducing revenues enough to create huge losses. Those losses made it impossible to borrow money at reasonable rates. Management then had to borrow from "pawn shops" to keep the company afloat, which increased interest expenses. In order to make up for these increased expenses, management cut costs further. Since the costs of the aircraft and fuel were fixed, and costs such as food had already been cut, the only way to reduce costs was to take back wages from employees. That ticked them off (to put it in language this publication will permit), which caused further reductions in service. As a result, more customers left, revenues continued to drop, and costs had to be cut more and more.

You might think the first step in breaking the doom loop is to fix the product, but that's actually the second step. The first is to beg forgiveness from all the customers you have wronged. Sure, you can skip this step, but you'll miss out on the goodwill it fosters and the relationships it spawns. Confession is good for everyone's soul, and often for the pocketbook as well.

Our forgiveness campaign had a couple of parts. First, we divided the angry letters from customers among our officers – executives through the rank of vice president – and started making phone calls. Our goal was not only to apologize but also to explain what we were doing to fix the company. Gordon and I each took our share of the letters. It was a humbling experience. The calls would often last half an hour or more. People were incredibly frustrated and wanted to let us know how badly they had been treated. By the end of the call, however, they were usually appreciative that an officer of the company had taken the time to seek them out.

We also assigned one city in our system to each officer and asked them to go through the same process of apologizing to travel agents and corporate customers. Gordon and I took the largest of those accounts. Again, we heard our share of shouting – there was a lot of venom out there. But at the same time, people couldn't believe that we were coming around to say we were sorry and to thank them for their business. I never denied that Continental had been a terrible airline. In fact, I usually agreed with everything they said. But I also wanted them to know that a new beginning was under way.

The third step in breaking the doom loop was to cut our advertising budget in half. It is offensive and insulting to customers to advertise a product that they know is crummy. Until the time came when we could offer them something great, I didn't want to promote a product that we couldn't deliver. So advertising less – lying less – was another way of saying we were sorry.

Begging for forgiveness can be unpleasant, that's for sure. But it's indispensable if you want to break the doom loop. Only after that has begun can you move on to making money – the subject of the next principle.

Ask the Customer in Seat 9C the Right Question

Deciding to focus more on customers' desires rather than on cutting costs is actually the easy part. The hard part is figuring out how to improve the customer's experience so that revenues increase faster than costs. Any first-year marketing student can tell you that to make more money, you have to listen to your best, most lucrative customers. In our case, that meant listening to the customers in seat 9C, the business travelers who book the aisle seats near the front of the plane. They pay full fare, and they travel a lot.

But we knew we couldn't listen to everything the customers in seat 9C had to say. If you ask customers what they really want, they will write you an epistle a foot thick. If you ask them what they want *and will pay extra for,* you will get a single sheet of paper with requests. That's where our focus was, and it's a good rule for any turnaround.

Relying mostly on our own experience as business travelers, we knew that the customer in seat 9C would pay extra for a few things: airplanes and terminals that are safe, comfortable, and attractive; on-time flights and reliable baggage handling; and good food at mealtimes. With the exception of safety, where Continental had always had a strong record, we were failing miserably on all counts.

We went to work at full speed. We asked the maintenance department to paint the exterior of every airplane the same and to match all the interiors. We also ordered new carpeting for all the airport terminals, and we launched a campaign to "retire the meatball" – that is, replace the old Continental logo, which was round, red, and ugly, with a blue globe with gold lettering. And we wanted it all done in six months.

The maintenance department was not amused. "Greg," I was told, "You have just proven you don't know anything about the airline business. You're asking for a four-year project." My response: "If you can't get it done, we'll find someone who will." Lo and behold, within six months, every plane was painted the same color inside and out, and all of the terminals had new carpeting. Our maintenance team worked their fannies off, and Continental's handsome new image was everywhere. Chalk one up for the power of persuasion.

Our customers loved Continental's new look. Who wouldn't after flying on the old Continental? In March 1995, I boarded a 737-100, which at 27 years was the oldest airplane in our fleet. The gentleman sitting next to me looked at me and said, "Isn't it great that Continental is getting all these new airplanes?" I just smiled.

The new image had an even bigger impact on our employees. They could see senior management finally taking the actions they knew had been needed for years. They could come to work in airports and on airplanes that looked clean and new. One of our MD-80 captains called me and said, "Greg, I knew we would be a good airline again once our airplanes were the same color."

We also started an aircraft appearance department to make sure our airplanes would continue to look great day after day. We learned that in one of the early cost-reduction programs, management had decided to clean the airplanes less frequently and to have the pilots clean their own cockpits. We quickly set up a cleaning schedule that tripled the number of times the airplanes are cleaned, cockpits included.

As for improving reliability, we had to get two sets of folks talking to each other: those that wrote the flight schedules and those that ran the flight and airport operations. In the past, the scheduling department had simply written a flight schedule and given it to operations, often only days before they were to fly it, because it was "confidential." As a result, the operating departments were frequently stuck with a schedule they had no hope of following: they had mechanics, parts, and crews in the wrong locations. Very quickly, we required the scheduling and operating departments to review and sign off on the flight schedules before they were loaded to be flown. Presto, now people were in control of their

In a turnaround situation, you don't have the luxury of time to try out solutions. You just find the most leveraged plan of action and take it.

own destiny, and the finger-pointing stopped.

Once Continental had a flight schedule that could be operated on time, we made an offer to our employees. For every month we finished in the top five out of ten airlines in on-time performance as measured by the DOT, we would give each employee $65. Incentives were now aligned; when the customers won, the employees did, too. Within months, we were regularly finishing first.

The offer sounds pretty bold for a company almost in bankruptcy, doesn't it? Truth is, the on-time incentive program is self-funding. When we made the offer, we were paying about $6 million per month to reaccommodate our customers on our competitors' flights. We were taking in approximately $750,000 per month. Since reaccommodation expenses showed up in a contra-revenue account rather than as a cost on the general ledger, they escaped the eyes of the cost reduction program. As an on-time airline, we pay out only $750,000 in reaccommodation expenses while taking in $4 million. Our balance of payments has changed by $8 million to $9 million per month. The on-time bonus costs only $3 million per month.

We also immediately started fixing our idiotic food policy. I don't know about you, but to me, a two-hour flight that leaves at 7:00 A.M. (after I have gotten up at 5:00 A.M. to get to the airport and haven't eaten breakfast) is a lot different from a two-hour flight at 2:00 P.M., which falls after lunch but before dinner. Customers told us they wanted and would pay for breakfast at 7:00 A.M. They may want food at 2:00 P.M., but they won't pay for it. We changed our meal service with an eye toward what our competitors were doing. Now our service reflects time of day, length of haul, and class of service.

In addition to changing *when* we served food, we also changed the food itself. Gone are the days when Continental put the meat, potato, and vegetable in a little ceramic dish and heated it until they all tasted the same. Nowadays, Gordon and I personally select the food we serve on our planes, and we test it ourselves every three months. You will find items like fresh pasta, soup and sandwiches, and freshly baked cinnamon rolls in first class, and Subway sandwiches and jelly beans in coach. We try to give everyone some brand quality with gourmet coffees and microbrewery beers. We're not trying to be a four-star restaurant, just an airline that gives its customers something they'd be happy to pay for.

The employees were going to be liberated – to be able to do right by the customer and to have fun at work.

And that's the whole point of asking the customer in seat 9C the right question. In a turnaround situation – or any business situation, for that matter – you can't afford to ask anything else.

Let the Inmates Run the Asylum

I'm not going to tell you that all the employees at Continental are "empowered." We fly airplanes, after all. When people's lives are at stake, certain rules and procedures are not open to interpretation or reinvention on a daily basis. And when you are an airline in a do-or-die situation, you don't exactly let your employees sort out strategy. It would take too long, and it's no way to act when strong leadership is imperative.

But within the parameters set for safety and those we set with the Go Forward Plan, we decided that at the new Continental, the employees were going to be liberated – to be able to do the right thing by the customer and to have fun at work.

Now, fun at work isn't about dancing on the tarmac. In fact, I think the word *fun* scares a lot of executives. They picture productivity plummeting, and profits along with it. But I would argue that people have fun at work when they are engaged, when their opinions are respected. People are happy when they feel they are making a difference.

When I arrived at Continental, it was a mean and lousy place to work. For years, different groups of employees had been pitted against one another in the effort to drive down labor costs. Management's implicit communication policy had been, Don't tell anybody anything unless absolutely required. As a result, most employees learned of the company's activities, plans, and performance through the press. Talk about sending a message about who matters and who doesn't.

On top of that, employees had no place to go with ideas or questions. There were forms for employees' suggestions on how to improve the operations, but the suggestions disappeared into a black hole. Add to that the fact that corporate headquarters was locked up like Fort Knox: the president's secretary had a buzzer under her desk that she could use to summon the police.

Needless to say, morale was terrible. A couple of weeks after I arrived, I was walking the ramp in Houston saying hello to our mechanics and baggage handlers, and helping to throw a bag or two, when I noticed that almost all the employees had torn the Continental logos from their shirts. When I asked one mechanic why he had done this, he explained, "When I go to Wal-Mart tonight, I don't want anyone to know that I work for Continental." His response still sends chills down my spine.

Now, how to create a new culture is the topic of hundreds, if not thousands, of books and articles. But Gordon and I didn't bother with them. We agreed that a healthy culture is simply a function of several factors, namely: honesty, trust, dignity, and respect. They all go together; they reinforce one another. When they are constants in a business, people become engaged in their work. They care; they talk; they laugh. And then fun happens pretty naturally. But honesty and the rest don't just sprout up like weeds in a cornfield, especially when there has been a long drought. In a turnaround situation, people are tense and suspicious for good reason. They've been lied to. They've seen their friends get fired. They fear they will be next.

So cultivating honesty, trust, dignity, and respect becomes the job of the leaders. It may even be their most important job; Gordon and I certainly considered it our top priority. That's why when we took over, we started talking with employees at every opportunity. We got out there in the airports and on the planes. We loaded bags; we stood alongside the agents at ticket counters. We just talked at every opportunity about our plans for the airline and how we were going to accomplish them. In general, our communication policy changed from, Don't tell anybody anything unless absolutely required, to Tell everybody everything.

We also told our employees we believed in them. They knew how to treat customers right, and we moved quickly to let them do just that. In the past, any time an employee provided a benefit for a customer that was considered unacceptable, the bankers and lawyers running Continental would write a rule documenting the proper action. Over the years, these rules were accumulated into a book about nine inches thick known as the Thou Shalt Not book. Employees couldn't possibly know the entire contents of the book. When in doubt, everyone knew it was advised just to let the customers fend for themselves. In early 1995, we took the Thou Shalt Not book to a company parking lot. We got a 55-gallon drum, tossed the book inside, and poured gasoline all over it. In front of a crowd of employees, we lit a match to it. Our message was this: Continental is your company to make great. Go do it – now.

Because it is critical to get everyone working together, we aligned employees' compensation with the company's objectives. The on-time bonus I mentioned earlier made it clear that our employees would win when our customers did. We also put in several programs to ensure that our coworkers would win when our investors did. For most of our employees, one incentive is profit sharing. Our workers receive 15% of Continental's profits – which has worked out to be approximately 7% of their pay over the last two years. We have a great time riding in Brink's trucks distributing profit-sharing checks every Valentine's Day.

To involve our employees even more in the turnaround, we put up 650 bulletin boards throughout the system. These boards contain everything an employee needs to know about the company, from a daily news update to Continental's operating results over the last 24 hours. In addition, Gordon records a voice mail each Friday that summarizes the activities of the week. Every month, Gordon and I hold an open house where employees can ask us questions, and we publish a newspaper describing what's happening in the company. Every quarter, we send a *Continental Quarterly* magazine to employees' homes, and twice a year we do the same with a state-of-the-company video and recent press clippings. The video is produced for our semiannual employee meetings, when we travel to nine locations to update everyone on our progress. By the way, sending select material to the home is one of the smartest things you can do. The support you get from each employee's family when they become part of the team is incredible. Finally, each corporate officer is assigned a city on the system. It is his or her responsibility to visit the city once per quarter to update employees, get their feedback, and fix their problems.

Of course, we'd be fools if all we did was talk *at* our employees. We listen, too. We set up a toll-free hotline that operates around the clock to handle employees' suggestions. Pilots, flight attendants, mechanics, and gate agents manage the hotline. They are required to research each suggestion and get back to the employee within 48 hours with one of three responses: we fixed it; we are not going to fix it, and here is why; or, we need to study it a little more, and we will get back to you by such and such date. We have taken more than 200 calls per week in the three years the hotline has been open.

We don't implement all of the suggestions – I'd say about one in ten is implemented – but we take each one seriously. A group of baggage handlers came to me a little more than a year ago and asked if we could tag the bags of our best customers "priority" and deliver them first off the baggage belt. It sounded like a great idea, but I was worried we would raise expectations and then not be able to deliver. They explained that the process was easy: as you pull the bags off the airplane, the ones marked priority go in the first baggage cart, which is the first to be unloaded. Priority bags are a big hit. The program didn't cost anything, but it added value to the customer. Today the plan is in place across our entire system.

The kind of talking and listening I've described goes a long way toward creating an atmosphere of honesty, trust, dignity, and respect. But to go the full distance, we knew that we would also have to communicate openly when the message was tough. Let me tell you, for instance, about the day I had to shut down our operations in Greensboro, North Carolina.

The historical norm for delivering bad news at Continental was for a senior manager to dump the news in the local airport manager's lap and then hide in our corporate office building. But I decided to go to Greensboro myself, make the announcement to the employees, and take my punches publicly.

When I arrived the night before the meeting, I found several messages waiting for me from the head of our pilots' union. He wanted to meet for breakfast the next morning, and I quickly agreed. When we met, he said that the Greensboro pilots were not angry that we were closing the airport – they could see that there

There was so much wrong with Continental that I felt as if one little misstep could have brought us down.

were no customers on the flights. But they did not feel that the compensation package was fair. I said I was surprised; we had just finished negotiating the first pilots' contract in 12 years, and it had been ratified by a large margin. Moreover, I had taken the financial relocation package called for in the contract and doubled it. I then offered it to all employees, not just pilots. Not mollified, the union president asked me to come to a meeting the pilots were having before my meeting with the entire airport staff.

That meeting was hostile, to put it mildly. But it would have been dishonest to back down or to fudge a reaction of sympathy I did not feel. I believed the pilots were getting a fair deal, and I said so. About an hour later, I met with the rest of the employees and their families – about 600 people in all. Along with explaining the details of the closing and relocation plans, I also shared with them my vision for Continental and how far we had come. I then opened the floor to questions and answers.

For about five minutes, employees expressed appreciation that I had personally come to give them the news and had developed a financial package to meet their needs. But then the pilots walked in – in full uniform – with their families. They surrounded the room and refused to sit down. A pilot came to the microphone to express how incompetent he felt management was and how Continental was once again making the wrong decision. The rest of the pilots applauded.

Do you know what happened? The rest of the employees, led by a baggage handler who was also being relocated, stood up and defended me, one after another, for 20 minutes. They told the pilots that they should feel lucky that Continental finally had a senior management team that treated them with enough respect to deliver the bad news – as well as a good relocation package – in person. I left to a standing ovation.

Closing Greensboro was one of the toughest days of my life. It is a heavy responsibility to make decisions that affect the lives of so many coworkers. But it was a tough and emotional time for everyone. The pilots weren't bad folks; in fact, many of them are good friends of mine now. They were just frustrated with 15 years of poor decisions and were taking it out on me – like blaming your third wife for all of your problems with the first two. So I tell this story not to vilify them but to demonstrate the kind of trust that starts to emerge when a company's leaders neither hide nor mince words in bad times. It's easy to make everyone happy when things are going well. But real trust is a 365-days-a-year commitment.

Continental is a fun place to work today. Lots of statistics prove that fact, such as the huge reductions in turnover, sick leave, on-the-job injuries, and worker's compensation claims. But my favorite measure is the sale of Continental logo merchandise at our company stores. The same employees who used to tear the patches from their shirts so no one would know they worked at Continental have increased their purchases of hats, caps, T-shirts, and the like for themselves and their friends by more than 400%.

That's the kind of thing that happens when you let the inmates run the asylum. You may feel as if you've lost a bit of your authority and control over every last detail – because you have – but that's okay. You can't run a company from the executive suite of an office building anyway. When the employees are happy, everyone is happy – from the customers to the shareholders.

The Power of Momentum

Sometimes people ask me, "Did anything about the turnaround surprise you?" My answer is, "The fact that it didn't fail."

That's an exaggeration, because as I've said, I had enormous faith in my coworkers at Continental and the powerful logic of the Go Forward Plan. But at the beginning of the turnaround, there was so much wrong with the company – so many parts of it to fix – I really felt as if one little misstep could have brought us down. A single creditor could have blocked our restructuring. The economy could have been in a downswing. The pilots could have rejected their contract. We were working hard, yes – but we had great luck, too.

When I look back now, I realize the biggest factor in our favor was momentum. The rallying cry of our turnaround was, "Do it fast, do it right away, do it all at once. Do it now!" We lit a fire of urgency beneath Continental; we rotated quickly and picked up speed as we climbed to 41,000 feet. Pretty soon, we were unstoppable. What a ride it has been. Of course, the ride isn't over. We have big plans for Continental and mustn't lose our momentum. Even though the turnaround is over, we won't forget the lessons we learned from it. In fact, we're putting them to practice every day.

ARTICLES

"The Employee-Customer-Profit Chain at Sears" by Anthony J. Rucci, Steven P. Kirn, and Richard T. Quinn (*Harvard Business Review,* January–February 1998, Product no. 3537)

Leaders at Sears, like those at Continental, correctly recognized early in their corporate rescue effort that people—customers and employees—would make or break the return to profitability. A group of more than 100 top-level Sears executives developed a business model for the company that tracked success from management behavior through employee attitudes to customer satisfaction and financial performance. This employee-customer-profit model became the basis for a cultural change that spread throughout the company; it is described in this article by three Sears executives who helped restore the famous retailer's lost luster. Although the situation at Sears was never as desperate as it was at Continental, the turnaround was similarly sudden and pronounced: from a 1992 that was the chain's worst year ever to a 1993 that was "one of its most profitable years ever."

"The CEO As Coach: An Interview With AlliedSignal's Lawrence A. Bossidy" by Noel M. Tichy and Ram Charan (*Harvard Business Review,* March–April 1995, Product no. 3642)

Bossidy's focal points in the turnaround of AlliedSignal—strategy, operations, and human resources—are similar to those enumerated by Brenneman in describing Continental's rescue. There's additional similarity in the critical role of employees in the resuscitation of the airline and the $13 billion supplier of aerospace systems, automotive parts, and chemical products. Bossidy elaborates on his claim that "you don't change a culture . . . you coach people to win," demonstrating that beneath what some observers viewed as a typical slash-and-burn turnaround, a company was being transformed by a charismatic and persistent coach.

"The Turnaround Value of Values" by John Thorbeck (*Harvard Business Review,* January–February 1991, Product no. 91110)

This article is written by an executive who, having registered a string of successes with several companies, proceeds to deconstruct his record and conclude that "confrontational innovation isn't the best way, or even a good way, to manage." Thorbeck matches Brenneman in coming to see the larger value of people (larger than their limited roles as employees, customers, or members of a community) and, thereby, the larger matters that really motivate people to work or buy or simply support a company's turnaround efforts. He describes how to base the company's strategy for a brighter future on the history and values of its past.